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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 002470

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SUBJECT: GOAM RESCUES N-K TELECOM OPERATOR IN BACK-ROOM
DEAL TO END ARMENTEL MONOPOLY

REF: A) YEREVAN 1456 B) YEREVAN 2388

Classified By: DCM A.F. Godfrey for reasons 1.4 (b) and (d).

SUMMARY

1. (C) During the week of November 15 the GOAM is due to seal the deal it has made with Armentel, Armenia's incumbent monopoly telecommunications service provider. The Government of Armenia will end its protracted dispute with Armentel and license a second mobile telephone provider to compete with Armentel's unsatisfactory service (ref A). The government immediately named the grantee of the second license, Karabakh-Telecom, the "winner" of a midnight tender. While the public has supported renegotiating Armentel's monopoly, critics have cried foul at the lack of transparency in granting the second license. Representatives of the Ministry of Justice told us that the choice of Karabakh-Telecom was political -- presumably designed to protect Karabakh's embattled telecom company and preclude Russian control over yet another of Armenia's sectors. Competition in the mobile market will be a good thing even if achieved improperly, but we expected a better deal with Armentel and a better process in awarding a new license. End Summary.

DONE DEAL: DID ARMENIA GET WHAT IT WANTED?

2. (SBU) Ending a years-long dispute with Armentel and its parent corporation, OTE (Hellenic Telecommunications) of Greece, Armenia tightened Armentel's monopoly rights over international calls to include voice-over-internet protocol (VoIP) in exchange for adding a competing mobile licensee. This deal also formalized the de facto status quo in international data transmissions: Armentel keeps the monopoly on uploads, downloads stay unrestricted. Despite the GOAM's weak legal position before the London arbitration, we expected a better deal. Any deal had to include a second mobile operator, but the GOAM's concession over VoIP is surprising. Armenia currently has 240 VoIP operators, providing international calls at rates more than ten times cheaper than Armentel's. Presumably Armentel will use its monopoly in VoIP to try to end the service altogether. The cost to consumers and businesses for closing Armenia's VoIP could outweigh the gains by adding competition in mobile communications.

BACKGROUND: GOAM SPENT A LOT OF TIME, MONEY, TO GET HERE

3. (C) Armenia's telecommunications infrastructure has long been woefully inadequate: connections are poor, villages are without service, and new mobile accounts are unavailable except on the black market. Armentel, which had a monopoly on all telecommunications in Armenia until 2013, has failed to live up to its investment commitments and been unable to earn enough in lucrative sectors like mobile and international service to justify continued large investment in the unprofitable fixed line system. Following disputes about Armentel's investment level, the GOAM took legal and regulatory actions -- some meritorious, others not -- to restrict the monopoly license and allow a competitor in cellular telephony and international data transmission. Armentel's parent company, OTE, pledged that it would invest no new money to upgrade Armenia's telecommunications infrastructure while its monopoly rights hung in balance. By threatening to amend unilaterally Armentel's license, the GOAM successfully pushed Armentel to settle. The Minister of Justice told the Ambassador that had they not reached an agreement this week, the GOAM could not afford to continue its legal processes in London arbitration (ref B).

CIRCLING THE WAGONS AROUND KARABAKH?

4. (C) The day following the settlement with Armentel, the GOAM granted a second mobile license to Karabakh telecom, the

mobile operator in Nagorno-Karabakh. Karabakh Telecom had always been one of the contenders for the license: it has 3,500 mobile subscribers in nearby Karabakh but capacity for 100,000. But the government's point on the deal, Vahe Yacoubian, an Amciti lawyer for the GOAM and advisor to the Minister of Justice, previously told us that the tendering process would be open and transparent (ref A). It was neither. The tender took place in six hours in the middle of the night: the details of the deal are still secret. In a November 5 meeting with the Ambassador, Yacoubian acknowledged the unseemliness of the deal but said the deal was more political than corrupt. Recently Karabakh telecom has been the subject of various efforts by Azerbaijan to isolate the company. In May 2004, the Government of Azerbaijan lobbied foreign mobile companies to not cooperate with Karabakh Telecom or make roaming agreements. Azerbaijan has also appealed to the International Telecommunication Union (ITU) and the GSM association to withdraw Karabakh Telecom's membership. Granting the license to Karabakh Telecom would weaken Azerbaijan's argument that the company is operating illegally. Now rather than operating exclusively within the disputed Karabakh region, Karabakh Telecom will operate in Armenia (a far bigger market) and also cover Karabakh, which shares Armenia's country code. November 10 news reports cited the Ministers of Justice and Transport and Communication claiming that the decision had been taken because Armenia "could not leave Karabakh cut off from the world."

COMMENT: AN OPPORTUNITY SQUANDERED?

15. (C) Having gone through the trouble and expense to force a renegotiation of Armentel's contract, most here hoped for more. The original deal with Armentel was a bad one for Armenia, but it was legal and the government of Armenia nevertheless took financial and reputation risks to force a renegotiation. To settle the dispute the GOAM has surrendered additional, likely valuable, services to Armentel's monopoly, but it has not guaranteed a strong competitor on the Armenian market, and further it has failed to follow through with an international open tender that would have given the population and international investors confidence in the deal or the business environment. All this may have been a high price to pay to protect Karabakh-Telecom, although politically the advantages to the government are clear -- the one thing on which politicians across the spectrum agree is that Karabakh must be protected. While any competition in Armenia's beleaguered telecommunications sector will be welcome, Armenia has failed to make a positive step towards the ultimate liberalization of the market that would best serve consumers and tackle Armenia's capacity problems.

EVANS